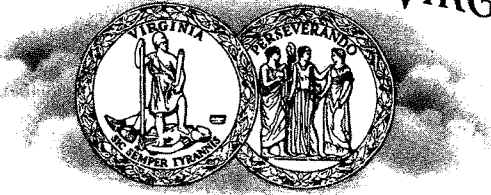


EXAMINATION REPORT
of
SHENANDOAH MUTUAL FIRE
INSURANCE COMPANY
WOODSTOCK, VIRGINIA
as of
December 31, 2007

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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RICHMOND, VIRGINIA 23218
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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Shenandoah Mutual Fire Insurance Company as of December 31, 2007, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 20th day of June, 2008

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
April 4, 2008

Honorable Alfred W. Gross
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by authority of § 38.2-1317 of the Code of Virginia, an examination of the records and affairs of the

SHENANDOAH MUTUAL FIRE INSURANCE COMPANY

Woodstock, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Company is a mutual assessment property and casualty insurer licensed pursuant to Chapter 25 of Title 38.2 of the Code of Virginia. It was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2007.

HISTORY

The Company was granted a charter on February 7, 1876, as Shenandoah Farmers Mutual Fire Insurance Company. The name was shortened to its present form by charter amendment on December 14, 1943. The charter was restated on September 9, 1965, and as it presently reads, the purpose of the Company is as follows:

The conduct of a mutual assessment fire insurance business,
within the widest definition of Section 38.1-659, Chapter 15,
Code of Virginia of 1950, as amended from time to time.

On May 1, 1967, Frederick Mutual Fire Insurance Company of Winchester, Virginia was merged into the Company and on April 1, 1970, East Rockingham and Page Farmers Home Mutual Fire Insurance Company of Luray, Virginia were merged into the Company.

MANAGEMENT AND CONTROL

Management of the Company is vested in a board of nine directors who are required to be members of the Company. Directors are elected by the members at the annual meeting in February of each year for a term of one year.

With respect to authority established in the bylaws, the board of directors shall fix their own compensation and that of all officers, set remuneration for travel expenses and establish the rate of commissions or other compensation for agents of the Company.

Officers of the Company shall be elected by the board at its annual meeting. The officers of the Company shall be a chairman of the board (if elected), president, one or more vice presidents, secretary, treasurer, and such other officers as may be needed. The board of directors may, by a resolution passed by a majority of the whole board, designate the chairman of the board (if elected), president, vice president, secretary, and treasurer to constitute an executive committee. To the extent provided in the resolution, the committee shall have and exercise the power of the board of directors in the management and control of the business and affairs of the Company.

The bylaws also provide that any vacancy of a director or officer whose term has not expired may be filled by the board of directors for the unexpired term.

Directors and officers at December 31, 2007, were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Daniel H. Abbott	Farmer Rileyville, Virginia
Donald L. Atwood	Farmer Front Royal, Virginia
Donald E. Foltz	Self-Employed Edinburg, Virginia
Mark K. Getz	Treasurer/VP of Operations Edinburg, Virginia

William S. Getz	Retired Edinburg, Virginia
Winston D. Huffman	Retired Middletown, Virginia
Gary D. Ramsey	Farmer Fort Valley, Virginia
Calvin F. Swartz	Retired Edinburg, Virginia
Guy R. Wetzel	Farmer Woodstock, Virginia

<u>Officers</u>	<u>Title</u>
William S. Getz	Chairman of the Board
Donald L. Atwood	President
Gary D. Ramsey	Vice President
Mark K. Getz	Vice President of Operations and Treasurer
Randall S. Jones	Secretary

FIDELITY BOND AND OTHER INSURANCE

The Company had a fidelity bond in force at December 31, 2007, in the amount of \$500,000 covering its employees and the two trustees of the retirement fund. In addition, the Company was insured under building and personal property and business catastrophe liability. Other coverages include workers' compensation and employment practices liability, robbery, directors' and officers' liability, and agents' errors and omissions coverage.

EMPLOYEE WELFARE

Since 2002, the Company provides full-time employees with a defined contribution plan and a 401(k) plan.

The Company also furnishes full-time employees with life, health, and disability insurance as well as paid vacations.

TERRITORY AND PLAN OF OPERATION

The Company may operate throughout the Commonwealth of Virginia. However, business is currently written only in the counties of Augusta, Clarke, Culpeper, Fauquier, Frederick, Greene, Loudoun, Madison, Page, Rappahannock, Rockingham, Shenandoah, Warren and the cities of Harrisonburg, Staunton, Waynesboro and Winchester.

Marketing of insurance is conducted through 31 commissioned captive or independent agents, including five employees who are licensed agents. The lines of insurance written include fire and allied lines, comprehensive personal liability, dwelling properties, homeowner's, farm machinery, and livestock floaters. It is the practice of the Company to retain \$55,000 on property, bodily injury, property damage, and medical payment coverages. The balance of coverage is reinsured and is limited only by the amount the facultative reinsurer will accept.

Company personnel in conjunction with the binding authority of agents underwrite business. Property is classified according to use, construction, location, and occupancy.

All rates are set by the board of directors, who frequently establish special rates as needed for risks with unique hazards. Two full-time employees who also have secondary responsibilities for underwriting handle claims adjustment. The services of independent adjusting firms are used at times.

REINSURANCE

The Company had the following reinsurance agreements in force at December 31, 2007:

<u>Type of Contract</u>	<u>Lines</u>	<u>Net Retention</u>	<u>Reinsurance Limits</u>
First Per risk Excess of Loss (property)	Fire, Inland Marine, and Multiple Lines	\$55,000	\$145,000, any one loss
Second Property Per risk Excess of Loss	Fire, Inland Marine, and Multiple Lines	\$200,000	100% of \$400,000 in excess of \$200,000, any one loss
Property Facultative Pro Rata	Fire, Inland Marine, and Multiple Lines	\$45,000	Three times the Company's net retention plus the amount ceded to the working reinsurance layer, subject to a maximum cession of \$500,000 per risk (see Note)
Casualty Excess of Loss	Bodily Injury, Property Injury, Personal Injury, and Medical Payments	\$45,000	Combined net loss in excess of \$45,000 each loss occurrence; subject to a limit of liability of \$1,000,000 any one loss occurrence
Special Casualty Excess of Loss	Bodily Injury, Property Injury, Personal Injury, and Medical Payments	\$500,000	100% of \$500,000 in excess of \$500,000 combined net loss, per occurrence

DISBURSEMENTS FOR THE PERIOD UNDER REVIEW

	<u>2006</u>	<u>2007</u>
Net losses paid	\$1,093,192	\$1,250,732
Loss adjustment expense	11,478	14,869
Commission and brokerage	387,619	414,702
Gross salaries	362,545	375,813
Directors' fees	9,280	9,455
Travel and travel items	9,671	8,774
Boards, bureaus and associations	5,035	5,319
Legal and auditing	37,891	28,884
Furniture, fixtures and equipment	30,753	15,031
Rent, office and equipment maintenance	24,921	26,118
Advertising	13,087	20,174
Printing and stationery	3,389	3,598
Postage, telephone and express	19,304	21,240
Insurance and fidelity bonds	26,940	26,787
General operating expenses	74,705	58,705
Taxes, licenses and fees	56,595	60,402
Payroll items	212,348	187,117
Federal corporate income tax	17,870	
Real estate	38,180	39,976
Loss on disposal of investments	3,387	
Decrease by adjustment in book value		
Borrowed money repaid	10,944	11,505
Interest paid on borrowed money	16,773	16,213
Total disbursements	<u>\$2,465,907</u>	<u>\$2,595,414</u>

ASSETS

	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$2,118,825			\$2,118,825
Common stocks	177,954	192,712		370,666
Cash in company's office	200			200
Cash on deposit	388,951			388,951
Real estate	658,065			658,065
Interest due or accrued:				
On bonds	597	21,133		21,730
On cash deposits		583		583
Reinsurance recoverable on paid losses		28,800		28,800
Equipment, furniture and supplies	38,058		36,301	1,757
Overpayment of reinsurance		11,056		11,056
Property and casualty guaranty funds		4,215		4,215
Claims restitution due and maintenance of Bureau		6,899		6,899
Deferred income taxes		3,700		3,700
Total assets	<u>\$3,382,650</u>	<u>\$269,098</u>	<u>\$36,301</u>	<u>\$3,615,447</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

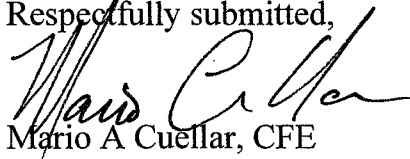
Net unpaid losses	\$189,400
Loss adjustment expenses unpaid	17,400
Fees or commissions payable	5,759
Other expenses due or accrued	87,093
Taxes, licenses and fees	31,721
Ceded reinsurance balances payable	28,341
Assessments unearned	1,359,000
Federal corporate income tax	
Advertising, auditing and legal	2,344
Utilities, janitorial and printing	476
Amount due reinsurers	<u>48,508</u>
 Total liabilities	 \$1,770,042
 Excess of admitted assets over liabilities (surplus)	 <u>1,845,405</u>
 Total	 <u><u>\$3,615,447</u></u>

CONCLUSION

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Jennifer K. Crawley, CFE and Theresa C. Lewis, CFE of the Examination Section of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mario Cuellar", written over the printed name.

Mario A Cuellar, CFE

Senior Insurance Examiner



08 JUN 13 AM 10:07

Fire Insurance Company
P. O. Box 106
Woodstock, VA 22664-0106

William S. Getz – *Chairman Of The Board*
Donald L. Atwood – *President*
Gary D. Ramsey – *Vice President*
Mark K. Getz – *VP of Operations & Treasurer*
Randall S. Jones – *Secretary & Claims Manager*

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June 11, 2008

Mr. David H. Smith
Chief Examiner
Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond Va 23218

RE: Acknowledgement of Receipt of Report

Dear Mr. Smith:

Please be advised that we are in receipt of the Examination report of Shenandoah Mutual Fire Insurance Company as of December 31, 2007 and have no issues with any matter contained in the report.

Please supply us with 12 copies of the report for future use.

It was a pleasure working with the examiners during the course of the examination.

Yours truly,

Mark K. Getz
Vice-President of Operations & Treasurer

